

# TALBOT'S LEVERAGE PROFESSIONAL SOFTWARE

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USER MANUAL

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BY TALBOT STEVENS

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# INTRODUCTION

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**Talbot's** Leverage Professional is a program for analyzing the net benefits of borrowing to invest. It evaluates leveraging using Interest-Only loans, Term Loans that are paid off over time, and RRSP Catch-Up loans.

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## FEATURES

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- ◆ Automatically calculates the critical “Better Than” point where the returns from leveraging start exceeding those of not leveraging.
- ◆ Investors learn how much leveraging can potentially benefit them with reasonable projections, as well as how much leveraging would hurt them if they sell when returns are below the “Better Than” return
- ◆ Shows results for 4 user customizable projected returns, so investors understand how leverage can help or hurt them over a range of possibilities
- ◆ Prints 1-page Summary Reports or Detail Projections showing year-by-year results
- ◆ Printout option for client signatures, to give advisors proof of full disclosure
- ◆ Accounts for taxable distributions in non-registered projections
- ◆ Accurate future value analysis for lump-sum and annual investments
- ◆ Quantify the exact tangible benefit of using tax-efficient funds
- ◆ Simple, efficient interface
- ◆ AutoCalc feature automatically updates results
- ◆ Advanced Details mode allows advanced users full access to all analysis parameters
- ◆ Quantify the impact of different RRSP Refunds Strategies, allowing a comparison of the RRSP Catch-Up loan strategy with annual RRSP investing where refund is spent, reinvested, or grossed-up

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## INSTALLATION

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IF YOU HAVE *ALREADY INSTALLED* THE 30-DAY EVALUATION VERSION, PLEASE **SKIP TO STEP 4.**

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### STEP 1: DOWNLOADING THE INSTALLATION FILE

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1. Using your web browser, go to **www.TalbotStevens.com**
2. Click on the **Downloads** link on the left side
3. Click on the link for **Talbot's Leverage Professional, 30-Day Evaluation Version.** Press **OK.**
4. You will be prompted to save the file to your disk. **Select a directory** where you would like the SetupLP.EXE file to be downloaded to, and press the **SAVE** button. **Remember where you saved it**, so you can run the setup program when it's finished downloading.

Note: The SetupLP.EXE file is approximately 8MB and may take up to 40 minutes to download on a 56K modem.

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### STEP 2: INSTALLING THE SOFTWARE

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1. Once download is complete, run **Windows Explorer**, and go to the directory where SetupLP.EXE was saved to (Step 4 above).
2. Run the **SetupLP.EXE** program by double clicking on it.
3. **Accept** the license agreement and continue to press **Next** until the installation is complete. This will install the software on the C: drive under the Program Files\Leverage Pro directory.

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### STEP 3: TO START THE PROGRAM

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The program can be started in one of two ways:

- ♦ Double click the icon on the desktop labeled "Talbot's Leverage Professional"  
**or**
- ♦ Click the **START** button on the bottom left of the screen, click on **Programs**, then **Talbot's Leverage Professional**.

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### STEP 4: ACTIVATING YOUR CUSTOMIZED LICENSE

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Your customized license will be sent to you by e-mail. Using your email program, save the personalized license file (License-«First\_Name» «LAST\_NAME».TXT) in the folder "C:\Program Files\Leverage Pro". Your license should automatically be linked the next time you run the program.

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# GUIDE

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## OVERVIEW

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In order to successfully use the “Leverage Professional” Software, there are a few things that need to be first understood before using the software.

- ◆ Leverage Professional Software has been developed with the assumption that the user is either a financial advisor, or has a similar knowledge level of financial concepts.
- ◆ Leverage Professional Software is a user-friendly program, which provides analysis of three leverage strategies.
  - ◆ Interest-Only Loans
  - ◆ Term Loans
  - ◆ RRSP Catch-up Loans
- ◆ For each type of analysis, inputs are entered on the left with two panels (or tabs)
  - ◆ Investor Info
  - ◆ Projected Returns
- ◆ Analysis results are presented on the right part of the screen in four panels
  - ◆ Summary Table
  - ◆ Summary Chart
  - ◆ Projection Table
  - ◆ Projection Chart

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## DISCLAIMER

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*Please note that every possible effort has been taken to ensure that analysis and projections produced by Talbot's Leverage Professional software are accurate. Financial Success Strategies Inc. nor any of its associates assume any liability for the accuracy of the software, the interpretation of its projections, or any damages that may result from its use.*

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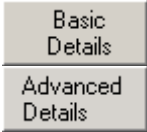
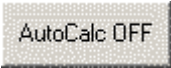



# BASICS

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## BUTTONS AND FUNCTIONS

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	<p><b>Advanced Details Button (Input Panel)</b></p> <p>Opens a dialog box allowing an advanced user to replace predefined values with values specific to the situation.</p>
	<p><b>Advanced/Basic Details Button (Projection Table Panel)</b></p> <p>Clicking on the Advanced Details button allows advanced users to view addition columns for the Projection Table only. The button then changes to Basic Details. Clicking on the Basic Details button hides the additional columns.</p>
	<p><b>AutoCalc Toggle Button</b></p> <p>Toggles Auto Calculation (AutoCalc) ON/OFF. Having AutoCalc disabled allows users with slower computers to change several parameters before updating calculations.</p>
	<p><b>Back/Next Button</b></p> <p>Allows the user to move to the previous/next panel.</p>
	<p><b>Help Button</b></p> <p>Displays context-sensitive Help for the screen or input you are currently on.</p>
	<p><b>Print Button</b></p> <p>Allows printing of Summary and/or Projection Tables. Note that charts do not print.</p>

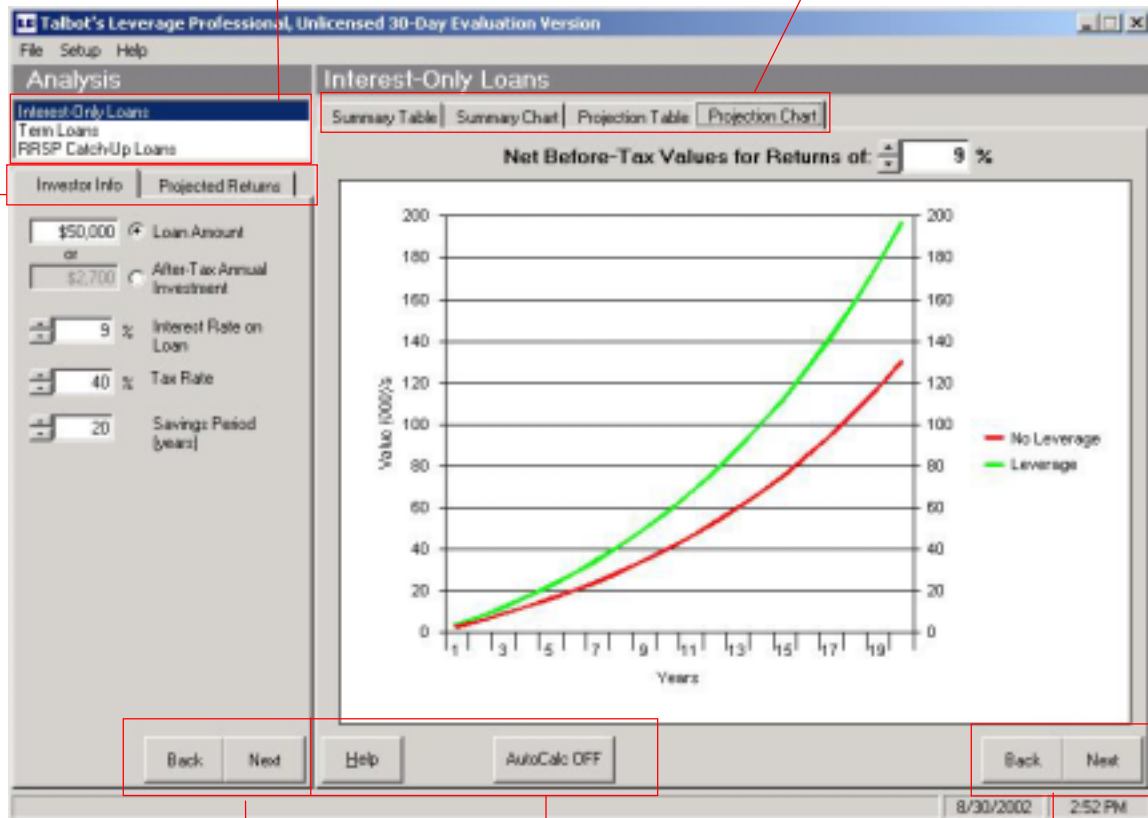
## BASICS

### SCREEN LAYOUT

Inputs are broken into two sections on panels (or tabs)

Select the Type of Results you want to

Select the Type of Analysis



These Back/Next buttons cycle through the Inputs panels

These buttons apply to the Results views

These Back/Next buttons cycle through the Results views



## BASICS

### ADVANCED AND BASIC DETAILS

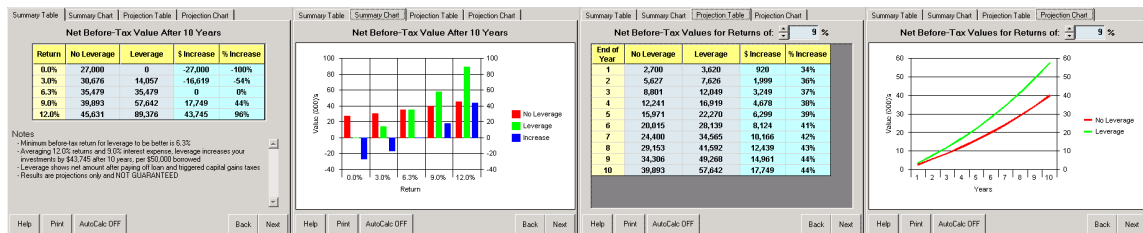
To make analysis simple for casual and advanced users, the inputs and Projection Tables have both Basic and Advanced Details modes.

By default, only the minimal details are shown on each panel. Advanced users can view and adjust additional parameters by clicking on the Advanced Details button at the bottom of the Investor Info and Projected Returns panels.

**Note:** To understand all of the input assumptions in detail, it is necessary to view the Advanced Details on all Investor Info and Projected Returns panels or print the Summary Table, which details the numerical value of all inputs used in any analysis.

### ANALYSIS RESULTS SCREENS

The Results screens are where the leverage projections are displayed. When the AutoCalc feature is enabled, the charts and tables automatically update when a change is made to the inputs. For convenience and ease of interpretation, four views are available for the user to select from. The four views are available for all types of analysis.



Summary Table

Summary Chart

Projection Table

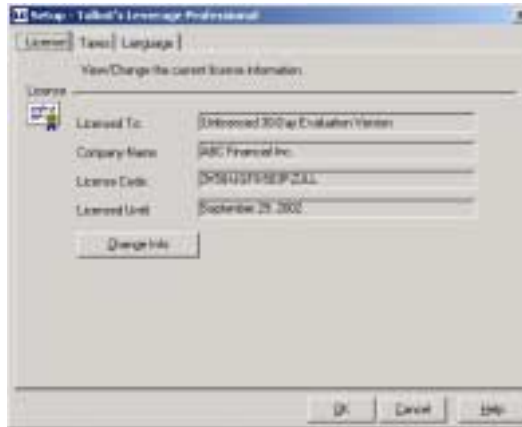
Projection Chart

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## LICENSE INFORMATION

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To view licensing information, from the menus, click Setup then License. To update license details, click on the Change Info button.



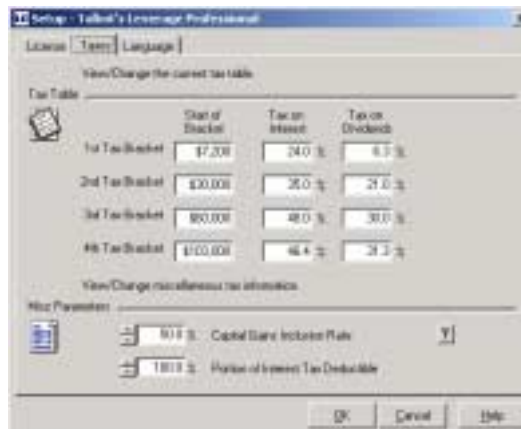
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## TAX INFORMATION

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Universal tax parameters that are not specific to an individual are set in the Setup, Taxes dialog box. The tax brackets are for reference only.

This is where the capital gains inclusion rate and Portion of Interest Tax Deductible are set.



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## LANGUAGE SELECTION

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To select a different language, open the Language panel in the Setup window. Here you will see a drop-down box allowing you to select the language you prefer. When a new language is selected, the software will minimize during the changeover and restore itself when the new language is in place.

# TYPES OF LOANS

There are 3 types of leveraging analyzed by Talbot's Leverage Professional Software: Interest-Only loans, Term loans, and RRSP Catch-Up loans.

## INTEREST-ONLY LOANS

### INVESTOR INFO

Inputs specific to the individual investor are shown on the first input tab.

**After** any input is changed and **you move off of the input** (using the mouse or pressing TAB), the Table or Chart results are automatically updated if AutoCalc is turned on.

Specify loan amount or the after-tax annual investment.

Specify the loan's interest rate and the tax rate that applies to distributions and tax deductions.

Length of leveraging period, before loan is paid off

Rate	No Leverage	Leverage	\$ Increase	% Increase
8.0%	\$4,308	0	\$0,000	100%
3.0%	71,225	33,783	-37,443	-53%
8.0%	96,298	98,798	0	0%
8.0%	126,812	198,728	68,748	55%
12.0%	176,894	305,925	187,832	165%

Notes:  
- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 4.1%  
- Averaging 12.8% return and 8.8% interest expense, leverage increases your investment by \$187,000 after 20 years on \$50,000 borrowed  
- Percentage values shown are annual, after paying all loans and taxes on borrowed capital paid after 20 years  
- Projections are NOT GUARANTEED. Actual results will vary (perhaps significantly).

### LOAN AMOUNT OR AFTER-TAX ANNUAL INVESTMENT

This feature allows the user to input the total amount borrowed, or the annual investment. Note that for Term Loans, the annual investment is a before-tax Annual Loan Payment while for Interest-Only analysis, the After-Tax Annual Investment is specified.

<input type="text" value="\$50,000"/>	<input checked="" type="radio"/> Loan Amount	<input type="text" value="\$50,000"/>	<input type="radio"/> Loan Amount
	OR		OR
<input type="text" value="\$2,700"/>	<input type="radio"/> After-Tax Annual Investment	<input type="text" value="\$7,791"/>	<input checked="" type="radio"/> Annual Loan Payment

## TYPES OF LOANS

### INTEREST-ONLY LOANS

#### PROJECTED RETURNS

Projections are calculated for four **Before-Tax>Returns**. The fifth “Better Than” return is automatically calculated.

The user can specify one of six pre-defined investment types. “Regular” equity funds is the default, and represents an equity investment that is mostly (70%) deferred capital gains, with 30% of the gross returns distributed and taxable annually.

The screenshot shows the 'Interest-Only Loans' window. On the left, under 'Type of Investment', there are six radio button options: Regular Equity Fund (selected), Tax-Deferred Equity Fund, Deferred Capital Gains, Interest Fund, Dividend Fund, and Interest. Below these is a text box for 'Return components are only estimates. Actual breakdown of returns will be different.' On the right, a table titled 'Net Before-Tax Value After 20 Years' shows five rows of data for different return rates (8.0%, 8.5%, 9.0%, 9.5%, 10.0%). The columns are 'No Leverage', 'Leverage', 'Increase', and '% Increase'. The 'Better Than' return rate is highlighted in the table.

Return	No Leverage	Leverage	Increase	% Increase
8.0%	\$4,368	\$	\$4,368	-100%
8.5%	\$1,223	\$3,783	\$2,560	209%
9.0%	\$6,798	\$6,798	\$	0%
9.5%	\$29,872	\$36,720	\$6,848	23%
10.0%	\$76,898	\$95,920	\$19,022	24%

User-defined Investment Types

“Better than” return rate, where leveraging starts to be better than not leveraging

#### Advanced Details

For Interest-Only and Term Loans analysis, users can click on the Advanced Details button to explicitly specify the breakdown of gross before-tax returns. Non-registered returns can have components that are Deferred Capital Gains, Taxable Capital Gains, Dividends, or Interest. These components must total 100% of the Gross Return.

The screenshot shows the 'Advanced Details - Interest-Only Loans' dialog box. It has a title bar and a close button. The main text says 'View/Change the advanced details for the current strategy'. Below this is a section titled 'Advanced Details' with a 'Breakdown of Gross Return' table. The table has four rows: 'Deferred Cap. Gains Portion' (40%), 'Taxable Cap. Gains Portion' (10%), 'Dividends Portion' (20%), and 'Interest Portion' (30%). At the bottom are 'OK', 'Cancel', and 'Help' buttons.

Component	Percentage
Deferred Cap. Gains Portion	40%
Taxable Cap. Gains Portion	10%
Dividends Portion	20%
Interest Portion	30%

## TYPES OF LOANS

### TERM LOANS

#### INVESTOR INFO

The Investor Info panel for Term Loans is the same as for Interest-Only loans with three exceptions.

After-Tax Annual Investment has been replaced with Annual Loan Payment

Savings Period (years) is now replaced with Loan Term (years)

Advanced Details are available

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	86,728	50,000	-36,728	-42%
3.0%	110,088	88,870	-21,218	-22%
5.0%	143,141	143,141	0	0%
8.0%	195,234	258,585	63,351	33%
12.0%	284,535	417,143	132,608	47%

NOTES:  
- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 5.0%.  
- Assuming 12.0% return and 5.0% interest expense, leverage increases your investment by \$132,608 after 20 years, per \$50,000 borrowed.  
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 20 years.  
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

#### INVESTOR INFO ADVANCED DETAILS

Sets the number of times the loan is repeated. For instance, a 5-year loan could be repeated once over a ten-year period. The number of years for the entire period must be no more than 80.

Advanced Details - Interest-Only Loans

View/Change the advanced details for the current strategy

Advanced Details:

Times Loan is Repeated: 0

OK Cancel Help

## RRSP CATCH-UP LOANS

### INVESTOR INFO

Analyzing RRSP Catch-up Loans is very similar to Term Loans. Loans can be repeated by clicking on Advanced Details.

RRSP Catch-up loan results from a single lump-sum investment are compared against investing annually into RRSPs where the refund is either spent, reinvested, or “grossed-up”. See Talbot’s Summary of Dispelling the Myths of Borrowing to Invest for more details on the different RRSP refund strategies.

The screenshot shows the 'RRSP Catch-Up Loans' window. On the left, there are input fields for 'Investment Date', 'Loan Amount', 'Interest Rate on Loan', 'Tax Rate', and 'Loan Term (years)'. The main area displays a 'Summary Table' with the following data:

Return	RRSP Catch-Up (lump sum)	Annual RRSP, Spent Refund	Annual RRSP, Reinvested	Annual RRSP, Grossed-Up
6.0%	16,000	40,361 (252%)	55,171 (345%)	190,581 (1191%)
7.0%	16,786	53,540 (319%)	71,824 (428%)	239,076 (1425%)
8.0%	206,221	160,532 (77.8%)	235,305 (113.7%)	288,221 (139.8%)
12.0%	483,216	243,219 (50.3%)	348,634 (72.2%)	495,517 (102.5%)

Notes:  
 Calculated figures show the percent change relative to the Catch-Up Strategy.  
 At 6% returns and 5.0% interest expense, the Catch-Up strategy produces \$288,221 after 25 years. The same amount invested annually, investing the same amount annually with the refund spent results in \$190,581, a 48.5% decrease. Annual RRSPs with the refund reinvested result in \$239,076, a 10% decrease.  
 Projections are NOT GUARANTEES. Actual results will vary, perhaps significantly.

The Summary Table (shown above) shows the percent change relative to the Catch-up strategy in brackets. For example, at 9% returns, annual RRSP investing with 100% of the refund reinvested (second column from right) results in 16% less than the Catch-up strategy.

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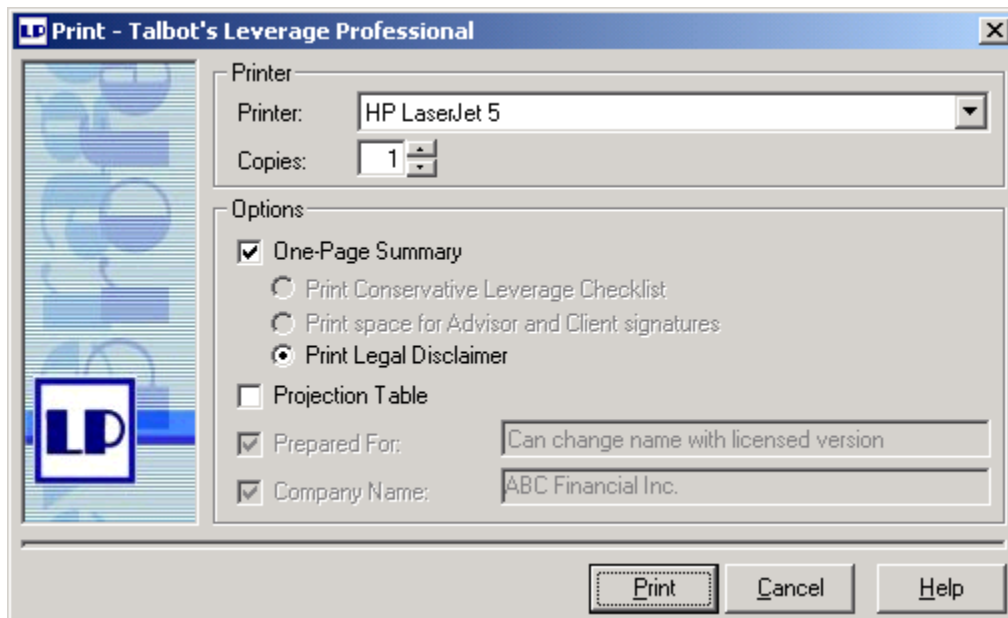
## PRINTING

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Open the printing dialog box by selecting File, Print or clicking the Print button. This will bring up a dialog box, which allows you to select the printer, number of copies, and multiple printing options. One-Page Summaries and/or Projection Tables can be printed. NOTE that charts cannot be printed.

The bottom section of One-Page Summaries can print either a legal disclaimer, space for client and advisor signatures, or Talbot's Conservative Leverage Checklist.

Additionally, the Company Name and/or "Prepared for" name can be included. These are automatically included and cannot be changed in an unlicensed version.



The following pages show sample printouts for each type of analysis.

## Leverage Analysis Summary: Interest-Only Loan

Prepared for John and Mary Smith

August 30, 2002

Prepared by a Trusted Financial Advisor, BMO Financial Group

### Assumptions

- \$100,000 interest-only loan, interest rate of 9.0%
- \$4,950 after-tax annual investment, \$9,000 before-tax annual payments
- 45.0% tax rate, 100.0% of loan interest is tax deductible, 31.3% dividend tax rate
- Projected returns are 70.0% deferred capital gains, 25.0% taxable capital gains, 5.0% dividends, 0.0% interest; 100.0% of distributions reinvested
- 50.0% of capital gains are taxable, when realized
- Sufficient ongoing cashflow and discipline to complete this strategy

### Net Before-Tax Value After 10 Years

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	49,500	0	-49,500	-100%
3.0%	56,186	27,355	-28,830	-51%
6.0%	63,852	63,852	0	0%
9.0%	72,921	112,723	39,801	55%
12.0%	83,323	175,027	91,704	110%

### Notes

- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 6.0%
- Averaging 12.0% returns and 9.0% interest expense, leverage increases your investments by \$91,704 after 10 years, per \$100,000 borrowed
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 10 years
- All returns and interest expenses are effective compounded annual before-tax rates
- An important benefit of any investment loan strategy is the forced higher level of commitment to the investment plan. Most forced savings programs, such as a mortgage, almost always get completed, while many automatic 'pay yourself first' plans are suspended.
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

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Any leverage analysis summary or projection, rate of return or mathematical table shown is used only to illustrate the effects of compounded growth rate and is not intended to represent the actual future value or performance of any personal investment portfolio or the actual cost of borrowing over any given time period and may not be used for this purpose. Changes in inflation and tax rates are not factored into these illustrations. Historical and benchmark trends are not necessarily reliable indicators of future trends and no comment herein is intended to portray future conditions or performance.



## Leverage Analysis Summary: Term Loan

Prepared for John and Mary Smith  
Prepared by a Trusted Financial Advisor, BMO Financial Group

August 30, 2002

### Assumptions

- \$100,000 loan paid off over 10 years, interest rate of 9.0%
- \$15,582 annual payments, after-tax amount is less and changes every year
- 45.0% tax rate, 100.0% of loan interest is tax deductible, 31.3% dividend tax rate
- Projected returns are 70.0% deferred capital gains, 25.0% taxable capital gains, 5.0% dividends, 0.0% interest; 100.0% of distributions reinvested
- 50.0% of capital gains are taxable, when realized
- Sufficient ongoing cashflow and discipline to complete this strategy

### Net Before-Tax Value After 10 Years

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	130,701	100,000	-30,701	-23%
3.0%	147,374	131,604	-15,770	-11%
5.3%	162,118	162,118	0	0%
9.0%	188,889	223,052	34,162	18%
12.0%	214,572	287,471	72,899	34%

### Notes

- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 5.3%
- Averaging 12.0% returns and 9.0% interest expense, leverage increases your investments by \$72,899 after 10 years, per \$100,000 borrowed
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 10 years
- All returns and interest expenses are effective compounded annual before-tax rates
- An important benefit of any investment loan strategy is the forced higher level of commitment to the investment plan. Most forced savings programs, such as a mortgage, almost always get completed, while many automatic 'pay yourself first' plans are suspended.
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

\* \* \*

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# RRSP Catch-Up Loan Analysis Strategy

Prepared for John and Mary Smith

August 30, 2002

Prepared by a Trusted Financial Advisor, BMO Financial Group

## Assumptions

- Have at least \$7,862 of after-tax annual cashflow to invest over 10 years
- 45.0% tax rate and sufficient RRSP contribution room to deduct RRSP contribution produced by strategy
- All returns and interest expenses are effective compounded annual before-tax rates

### RRSP Catch-Up Loan

- Can borrow and invest \$100,000 in RRSP now
- Deep in 45% tax bracket, producing \$45,000 refund that immediately reduces loan to \$55,000, which is paid off over 10 years with annual payments of \$7,862, assuming 9.0% non-deductible interest

### Annual RRSP Spend Refund Strategy

- Invest \$7,862 at the start of each year into RRSPs and spend the refunds

### Annual RRSP Reinvest Refund Strategy

- Invest \$7,862 and the 45.0% refunds into RRSPs at the start of each year, for a total annual contribution of \$11,400.60

### Annual Gross-Up Refund Strategy

- Invest \$14,295.42 before-tax in RRSP at the start of each year; after-tax cost of \$7,862

## RRSP Value After 10 Years

RRSP Return	RRSP Catch-Up 9% Loan	Annual, Spend Refund	Annual, Reinvest Refund	Annual, Gross-Up Refund
0.0%	100,000	78,625 (-21%)	114,006 (14%)	142,954 (43%)
3.0%	134,392	92,839 (-31%)	134,616 (0%)	168,797 (26%)
9.0%	236,736	130,205 (-45%)	188,797 (-20%)	236,736 (0%)
12.0%	310,585	154,534 (-50%)	224,074 (-28%)	280,971 (-10%)

Any leverage analysis summary or projection, rate of return or mathematical table shown is used only to illustrate the effects of compounded growth rate and is not intended to represent the actual future value or performance of any personal investment portfolio or the actual cost of borrowing over any given time period and may not be used for this purpose. Changes in inflation and tax rates are not factored into these illustrations. Historical and benchmark trends are not necessarily reliable indicators of future trends and no comment herein is intended to portray future conditions or performance.

## Leverage Projection, Interest-Only Loans

### 9.0% Interest, 9.0% Returns

Prepared for John and Mary Smith  
 Prepared by a Trusted Financial Advisor, BMO Financial Group

August 30, 2002

#### Assumptions

- \$100,000 interest-only loan, interest rate of 9.0%
- \$4,950 after-tax annual investment, \$9,000 before-tax annual payments
- 45.0% tax rate, 100.0% of loan interest is tax deductible, 31.3% dividend tax rate
- Projected returns are 70.0% deferred capital gains, 25.0% taxable capital gains, 5.0% dividends, 0.0% interest; 100.0% of distributions reinvested
- 50.0% of capital gains are taxable, when realized
- Sufficient ongoing cashflow and discipline to complete this strategy

#### Annual Projections for Returns of 9.0%

End of Year	No Leverage			Leverage				Comparison	
	Before-Tax Balance	After-Tax Distribution	Adjusted Cost Base	Balance Incl. Loan	After-Tax Distribution	Net Balance After Pay Loan	ACB After ACB After	Net Balance \$ Increase	% Increase
1	4,950	0	4,950	108,353	2,053	7,027	6,619	2,077	42%
2	10,313	102	10,002	117,404	2,224	14,823	13,166	4,510	44%
3	16,125	212	15,163	127,210	2,410	23,443	19,661	7,319	45%
4	22,422	331	20,444	137,836	2,611	32,950	26,128	10,528	47%
5	29,245	460	25,855	149,349	2,830	43,409	32,590	14,164	48%
6	36,637	600	31,405	161,824	3,066	54,891	39,074	18,254	50%
7	44,648	752	37,107	175,341	3,322	67,476	45,608	22,828	51%
8	53,327	917	42,974	189,987	3,600	81,247	52,222	27,920	52%
9	62,732	1,095	49,018	205,857	3,900	96,296	58,948	33,564	54%
10	72,921	1,288	55,256	223,052	4,226	112,723	65,820	39,801	55%

#### Notes

- 'Net Balance After Pay Loan' shows net amount after paying off loan and taxes on triggered capital gains
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

## Leverage Projection, Term Loan

### 9.0% Interest, 9.0% Returns

Prepared for John and Mary Smith  
 Prepared by a Trusted Financial Advisor, BMO Financial Group

August 30, 2002

#### Assumptions

- \$100,000 loan paid off over 10 years, interest rate of 9.0%
- \$15,582 annual payments, after-tax amount is less and changes every year
- 45.0% tax rate, 100.0% of loan interest is tax deductible, 31.3% dividend tax rate
- Projected returns are 70.0% deferred capital gains, 25.0% taxable capital gains, 5.0% dividends, 0.0% interest; 100.0% of distributions reinvested
- 50.0% of capital gains are taxable, when realized
- Sufficient ongoing cashflow and discipline to complete this strategy

#### Annual Projections for Returns of 9.0%

	Leverage							No Leverage		Comparison	
End of Year	Before-Tax Balance	Balance After Loan	ACB After Pay Loan	Loan Balance	Int. Part of Pmt	Loan Paydown	After-Tax Cashflow	Before-Tax Balance	Adjusted Cost Base	Net Balance \$ Increase	% Increase
1	108,353	13,697	12,900	93,418	9,000	6,582	11,532	11,532	11,532	2,165	19%
2	117,404	28,934	25,699	86,244	8,408	7,174	11,799	24,294	23,567	4,641	19%
3	127,210	45,833	38,439	78,424	7,762	7,820	12,089	38,412	36,155	7,420	19%
4	137,836	64,521	51,163	69,900	7,058	8,524	12,406	54,027	49,350	10,494	19%
5	149,349	85,140	63,922	60,609	6,291	9,291	12,751	71,290	63,210	13,850	19%
6	161,824	107,843	76,768	50,481	5,455	10,127	13,127	90,373	77,801	17,470	19%
7	175,341	132,796	89,760	39,443	4,543	11,039	13,538	111,459	93,193	21,337	19%
8	189,987	160,181	102,958	27,410	3,550	12,032	13,985	134,754	109,466	25,427	19%
9	205,857	190,194	116,429	14,295	2,467	13,115	14,472	160,481	126,704	29,713	19%
10	223,052	223,052	130,243	0	1,287	14,295	15,003	188,889	145,002	34,162	18%

#### Notes

- 'Balance After Loan' shows net amount after paying off loan and taxes on triggered capital gains
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.



# RRSP Catch-Up Loan Projection

## 9.0% Interest, 9.0% Returns

Prepared for John and Mary Smith  
Prepared by a Trusted Financial Advisor, BMO Financial Group

August 30, 2002

### Assumptions

- Have at least \$7,862 of after-tax annual cashflow to invest over 10 years
- 45.0% tax rate and sufficient RRSP contribution room to deduct RRSP contribution produced by strategy
- All returns and interest expenses are effective compounded annual before-tax rates

### RRSP Catch-Up Loan

- Can borrow and invest \$100,000 in RRSP now
- Deep in 45% tax bracket, producing \$45,000 refund that immediately reduces loan to \$55,000, which is paid off over 10 years with annual payments of \$7,862, assuming 9.0% non-deductible interest

### Annual RRSP Spend Refund Strategy

- Invest \$7,862 at the start of each year into RRSPs and spend the refunds

### Annual RRSP Reinvest Refund Strategy

- Invest \$7,862 and the 45.0% refunds into RRSPs at the start of each year, for a total annual contribution of \$11,400.60

### Annual Gross-Up Refund Strategy

- Invest \$14,295.42 before-tax in RRSP at the start of each year; after-tax cost of \$7,862

### Annual Projections for Returns of 9.0%

End of Year	Catch-Up Loan		Annual, Spend Refund			Annual, Reinvest Refund			Annual, Gross-Up Refund		
	Contrib.	RRSP Val.	Contrib.	RRSP Val.	% Incr.	Contrib.	RRSP Val.	% Incr.	Contrib.	RRSP Val.	% Incr.
1	100,000	109,000	7,862	8,570	-92%	11,401	12,427	-89%	14,295	15,582	-86%
2	0	118,810	7,862	17,912	-85%	11,401	25,972	-78%	14,295	32,566	-73%
3	0	129,503	7,862	28,094	-78%	11,401	40,736	-69%	14,295	51,079	-61%
4	0	141,158	7,862	39,192	-72%	11,401	56,829	-60%	14,295	71,259	-50%
5	0	153,862	7,862	51,290	-67%	11,401	74,370	-52%	14,295	93,254	-39%
6	0	167,710	7,862	64,476	-62%	11,401	93,490	-44%	14,295	117,229	-30%
7	0	182,804	7,862	78,849	-57%	11,401	114,331	-37%	14,295	143,361	-22%
8	0	199,256	7,862	94,515	-53%	11,401	137,047	-31%	14,295	171,846	-14%
9	0	217,189	7,862	111,592	-49%	11,401	161,808	-25%	14,295	202,894	-7%
10	0	236,736	7,862	130,205	-45%	11,401	188,797	-20%	14,295	236,736	0%

### Notes

- % Incr. is the percentage increase relative to the Catch-Up strategy
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

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## FREQUENTLY ASKED QUESTIONS

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### **LICENSE.TXT FILE NOT FOUND IN THE CURRENT DIRECTORY**

- ◆ This error is most frequently encountered while trying to install or run the Leverage Professional update. Please note that the update cannot be run off of the internet, and must be downloaded. To do this in Internet Explorer, right-click on the Download link, and select "Save target as..." and then save it to the Leverage Professional directory.
- ◆ In order for the update to work, it must be copied over the old LeveragePro.exe file and be in the same directory as your license. If you have it saved to your desktop or another location, it must be moved to the C:\Program Files\Leverage Pro\ directory.

### **PROGRAM WON'T PRINT - PROGRAM CRASHES WITH ERROR MESSAGE.**

- ◆ Please note that this program does not print the graphs, just the Summary and Projection Tables.
- ◆ One to print charts is to display the leverage results you want on the screen and capture the screen image and print it from a different program. To do this, start Talbot's Leverage Professional, display the results you want printed (e.g. Summary Chart), capture the screen image (by holding down the Alt key and pressing PrintScreen), paste the image into a word processing or image program like Word with a blank document (by pressing Ctrl-V). Now, you should be able to print the document containing the screen image of the leverage results you want.

### **LICENSING ISSUES**

- ◆ Most problems are related to getting the license to work. Once the program has been installed and you have been emailed your personal license file, you need to get the license file into the C:\Program Files\Leverage Pro directory.
- ◆ If you were emailed the license, use your email program to save the attached license file directly into the C:\Program Files\Leverage Pro directory. For example, using Outlook, you right-click on the license file attachment and choose "Save As..." and save the file to C:\Program Files\Leverage Pro

## FREQUENTLY ASKED QUESTIONS

### **FOR NON-REGISTERED ANALYSIS (INTEREST-ONLY AND TERM LOANS), THE RESULTS REFERENCE THE NET BEFORE-TAX VALUE. WHAT DOES THIS MEAN, RECOGNIZING THAT THE SUMMARY TABLE NOTES STATE THAT “LEVERAGE SHOWS NET AMOUNT AFTER PAYING OFF LOAN AND TRIGGERED CAPITAL GAINS TAXES”?**

- ♦ All non-registered analysis in Talbot's Leverage Professional compares net before-tax values. This calculates the before-tax value that the investor is left with after cashing out enough funds to completely pay off the loan, and the capital gains taxes that are due whenever a non-registered investment is sold for more than the amount invested (the Adjusted Cost Base). This before-tax figure is what most investors think of, and is what they would see on an account statement.
- ♦ For example, if \$50,000 is leveraged and grows at 12% to \$145,500 after 10 years, the investor needs to cash out more than the \$50,000 borrowed. In this case, an investor in a 40% tax bracket needs to cash out about \$55,500 to end up with \$50,000 after paying capital gains taxes on the withdrawal. Thus, as the software shows, the net (before-tax) value from leveraging is about \$90,000 (\$145,500 - \$55,500), not \$95,500.
- ♦ If the software did not account for the extra funds needed to pay the taxes incurred in paying off the loan, the analysis would overstate the benefits of leveraging.

### **DOES THE SOFTWARE ALLOW ANALYSIS OF 1:1, 2:1, AND 3:1 LEVERAGE LOANS?**

- ♦ The requirement for collateral to secure an investment loan does not affect the merits of leveraging or the projected gains or losses. Leverage analysis deals solely with the investor's cash flow, not collateral. Depending on the lender and type of loan program used, collateral may be required to secure an investment loan. Whether, for example, \$50,000 of investments is held where it is or with a lender has no impact on the projected leverage results. Analysis simply compares the net results achieved by investing a certain amount of cash flow without leveraging against using the same cash flow to finance an investment loan.
- ♦ To truly understand the merits of leveraging, it is necessary to separate the projected growth of collateral from the projected growth of using cash flow to finance an investment loan.

## F R E Q U E N T L Y   A S K E D   Q U E S T I O N S

- ◆ Combining these projections to illustrate a 2:1 investment loan distorts the true impact of leveraging.
- ◆ To summarize, collateral required for a 1:1, 2:1, or 3:1 loan is a condition of acquiring the loan and not a parameter in the analysis. How much an investor can borrow and invest is solely determined by their cash flow, the interest rate of the loan, and whether the loan is amortized and paid off or the investor makes interest-only payments.

### **HOW DO I ANALYZE LEVERAGE WHERE THE INVESTOR MAKES AN INITIAL DEPOSIT AND USES THAT TO SECURE AN INVESTMENT LOAN SUCH AS 2:1, ETC.?**

- ◆ See the answer to “Does the software allow analysis of 1:1, 2:1, and 3:1 leverage loans?”

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*WE ARE COMMITTED TO CONSTANTLY IMPROVING THE QUALITY AND VALUE OF OUR PRODUCTS. IF YOU HAVE ANY QUESTIONS OR SUGGESTIONS TO MAKE THIS SOFTWARE MORE VALUABLE, PLEASE FAX THEM TO (519) 663-1101, OR E-MAIL TO [INFO@TALBOTSTEVENS.COM](mailto:INFO@TALBOTSTEVENS.COM).*

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